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RUEHBJ/AMEMBASSY BEIJING 0440

RUEHUL/AMEMBASSY SEOUL 1138

RUEHSH/AMCONSUL SHENYANG 0062

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SUBJECT: Smart Ideas from Smart People: Kansai Japanese Suggestions to Restore America's Economy

REF: 09 OSAKA KOBE 00034

**¶1.** (SBU) Summary: Many people in the Kansai region of Japan not only wish the Obama administration well but have provided practical suggestions to help restore health to America and the global economy as a whole. These suggestions -- many based on Japanese best practices -- include: strengthening American eco-friendly construction capabilities and standards; ensuring the use of environmentally friendly designs when reconstructing areas after natural disasters; implementing a feed-in-tariff (FIT) scheme to support investments in renewable energy sources; reforming executive compensation practices; improving employee retraining and innovation; decreasing "financial engineering" while increasing manufacturing in the American economic mix; appointing a special envoy to create a "new Bretton Woods" international economic architecture; and instituting an automated way in which foreign friends of America can contribute "smart ideas" to rebuild the global economy so vital to Japan's own prosperity. End Summary.

**¶2.** (U) In line with the Secretary's emphasis that President Obama's administration is embarked on implementing "smart power" and wants to listen to the views of others, we have been soliciting "smart ideas from smart people" in our reach out initiative to business people, academics, government officials, students and others in the Kansai area of Japan. Following are our top choices, along with commentary, from among the many ideas we have received to date in response.

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Eco-Friendly Construction  
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**¶3.** (U) Because of space limitations, Japan has stringent requirements for the recycling of construction materials and, to a lesser extent, in meeting eco-efficiency standards in new buildings. In connection to the Obama stimulus proposal calling for massive infrastructure investments in highways, school improvements, federal building and other energy efficiency, U.S. companies should

use the opportunity to upgrade construction standards on a permanent basis by implementing improved eco-friendly construction methods, methods already well-known to top tier global construction companies but not necessarily to smaller local firms. This change should lead to considerable energy efficiencies in the long run, and increase the competitiveness and quality of American construction companies.

**¶4.** (SBU) The basic thrust of this suggestion was provided by Konoike Kazusue of Konoike Construction, and amplified by others. Electronics giant Sharp advertises a "green living" concept in which appliances and entertainment electronics are controlled in an environmentally friendly way, but these are very high end systems. Nonetheless, integrated energy efficient systems might be cost-effective and useful for electronics-heavy venues, such as schools. Daiwa House and other similar construction firms in Japan tout energy efficient residential building designs.

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Environmentally Friendly Post-Disaster Design  
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**¶5.** (U) In the reconstruction of areas devastated by natural disasters, Americans should rebuild using the most environmentally friendly designs and products available. Design is a key element in restoring a sense of local identity and inspirational spirit as well as in planning the proper installation of more solar or other alternative energy technologies to major shopping streets and similar public spaces.

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**¶6.** (SBU) This suggestion came from Kobe Mayor Yada Tatsuo and his staff. Kobe, which saw widespread devastation in the 1995 Hanshin-Awaji earthquake, has recently been designated by UNESCO as a "design city" -- incorporating architectural, aesthetic, and practical elements in its reconstruction. The Sannomiya and Motomachi shopping arcades are powered in large part by solar panels, themselves the products of Kansai-based companies. Much thought was given not only to earthquake safety requirements but also to energy efficiency and eco-friendly construction techniques in rebuilding destroyed portions of the city.

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Feed-in-Tariff  
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**¶7.** (U) The United States should follow the example of Germany in requiring utilities to institute a feed-in-tariff (FIT) system. This would provide incentives for investments in renewable energy facilities, including by individual homeowners, thereby feeding power into and stabilizing grids and diversifying the sources of power away from carbon-based generation.

**¶8.** (SBU) We already reported the views of Kaneka representatives on this topic (reftel), and representatives of Sharp and Panasonic/Sanyo have also said that the introduction of a FIT system in the U.S. would figure into their investment plans. There is also movement in Japan itself to introduce a FIT system, a move that would seem aimed as much at helping domestic solar technology companies increase home market sales as at further diversifying Japan's own energy mix.

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Executive Compensation  
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**¶9.** (U) In a typical Japanese corporation, compensation for top tier management is a comparatively small multiple (at most, ten times) of the compensation for rank and file employees. In some U.S. corporations the multiplier could be in the hundreds, thereby creating a huge disparity in

pay within a business organization. While there are cultural differences between Japanese and U.S. enterprises, large multipliers become a major source of demoralization during a downturn. When Japanese corporation have faced difficulties, top management often voluntarily cuts its own compensation, and because the multiplier between the top and the rank and file is so small, ordinary employees understand that top management is making a real sacrifice. In an American setting, cutting a top executive's total compensation from, say, \$30 million to \$10 million still leaves the demoralizing feeling that top management pay and benefits remain exorbitant, especially if there is also simultaneous downsizing. The U.S. needs to have an executive compensation scheme appropriate for a culture of high risk, high reward but which is flatter and fairer to regular employees and shareholders.

¶10. (SBU) This suggestion, in various forms, came from executives of many different types of companies -- regional railroad/property/department store groups (e.g., Hankyu-Hanshin, Kintetsu, and others), regional financial institutions (e.g., Bank of Kyoto), and major manufacturers. Many Japanese companies in the Kansai are rather risk averse, and their top managements tend to be fairly conservative as well. Some companies maintain a corporate code based on their founders' credo, which often incorporates "share the joy, share the pain" values.

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Training While Employed; Maintaining Innovative Skills

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¶11. (U) Even in troubled times, most Japanese corporations have maintained some level of product innovation activity so that their goods can be attractive and competitive following economic recovery. Just as important, however, is process innovation, training and improving the skills of line workers, foremen, and mid-level managers even as actual manufacturing activities remain low. While lay-offs might be unavoidable, instead of establishing retraining facilities for the unemployed for whom re-employment possibilities might remain scant, it would be far better if workers could be retrained, and skill levels improved, while those workers are still employed. Taxation and other financial incentives could be put in place by the U.S. to encourage such a system of on the job retraining.

¶12. (SBU) As with executive compensation, the concept of continuing process innovation was a favorite of many companies. These include international-level hoteliers and other service providers, where process innovation is focused on improving "the customer experience." The main proponents of retraining while actually employed were executives of Kyoto-based companies, most notably Kyoto Chamber of Commerce and Industry Chairman and Omron President Tateishi Yoshio. Tateishi and his colleagues -- many of them second or third generation descendants of company founders -- value human resources more than profits, and so the loss of an employee represents a loss of investment, in their view. Consequently, they view the continued honing of employee skills during slow economic periods as far preferable to worker lay-offs. This is not a universally shared view in the Kansai.

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Curtail Financial "Engineering"

¶13. (U) The financial crisis is very much based on fancy but ultimately faulty computer models that not only speedily but also broadly distributed financial products throughout the world that have proved to be little more than garbage. Every real engineer knows that a computer is just a dumb tool that does what it is instructed to do, but at super high speed. Therefore the instructions and inputs have to be meticulously examined to make sure that a

garbage-in, garbage-out situation does not arise. While derivatives, credit swaps, and other financial instruments have their utility, they must be regulated by officials with a high degree of sophistication able to properly evaluate their soundness.

¶14. (SBU) These are mostly the words of a prominent semi-retired nuclear engineer who also teaches a course on ethics and engineering, but large numbers of our interlocutors have voiced this recommendation in general ways. In part, this represents a Japanese bias, particularly strong in the Kansai, that manufacturing is the backbone of any economy and that the U.S. would be better served by increasing the manufacturing proportion of its GDP to a "healthier" level. Proponents added that increasing the manufacturing mix in the U.S. would require a change of thinking about compensation, particularly for those entering manufacturing fields. Educational fee rebates should also be encouraged for those students in engineering, science, mathematics, and other technology fields, in their view.

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Special Envoy for "New Bretton Woods"

¶15. (U) The finance ministers and central bank governors of all major economies have met or will meet in a variety of multilateral meetings (G-7, G-20, and so forth) to coordinate international measures to deal with the current

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financial situation. The major focus of finance ministers and bank governors are, however, mostly domestic, and while the international coordination meetings may produce declarations, it is unlikely that there will be a sustained effort to deal with the problem of restoring confidence in the international economic architecture. The U.S. appointment of a heavyweight special envoy for international economic architecture would lead to similar appointments by the EU, Japan, China and other leading and catalyze efforts to help restore confidence in international financial oversight.

¶16. (SBU) Hara Satoshi, MOFA Ambassador to the Kansai, made this suggestion. MOFA assigns a soon-to-retire former Ambassador on a one-year basis to act as a foreign policy advisor to local governments as well as to interact with Kansai area Consulates. Hara acknowledged that this is much more a process suggestion than one with concrete terms of reference. He said that he has made a similar proposal within MOFA and to other Japanese government agencies (he would prefer former minister Takenaka Heizo to be Japan's heavyweight because of his stature and experience), but the weakness of Prime Minister Aso's administration has made it difficult for it to take the lead on such a proposal.

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Automate the Collection of Smart Ideas

¶17. (U) Many top Japanese companies use the suggestion box not simply to get ideas from employees but also as a key element of its quality control and "continuous reinvention" process. The Obama campaign used an unprecedented degree of information technology to systematically garner support and ideas. A similar scheme should be used in the U.S. government to get views and suggestions not only from Americans but also from friends such as the Japanese.

¶18. (SBU) We first heard this suggestion from Murata Daisuke, President of Muratec, and further elaboration was made by a large number of academics, government officials, and other businessmen. The origin of the Japanese-style suggestion box ("meyasubako") stems from a Tokugawa Shogun who feared he was too isolated by his close aides from outside opinions and views. Accordingly, he set up a system so that he could "easily see" ("meyasu") his

subjects' discontents and act accordingly. The concept of automating such a scheme is actually a "smart idea" that our interlocutors, Murata-san included, acknowledge as coming from the U.S., particularly noting its use by the Obama campaign.

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Concluding Comments  
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¶19. (SBU) Each of our interlocutors in this initiative expressed the feeling that the U.S. bears a heavy responsibility for the global financial crisis and the concomitant collapse in American consumption, which in turn has substantially hurt the key export manufacturing sector in the Kansai. Still, there remains substantial good will directed towards the U.S. and considerable optimism that the Obama administration will provide the international leadership needed to get the global economy moving forward. While many Japanese are reticent to speak out vociferously, there are many smart people with smart ideas here, and we intend to continue our reach out efforts, including expanding the initiative towards students.

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